REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Cypress Communications, Inc.:

We have audited the accompanying consolidated balance sheets of CYPRESS COMMUNICATIONS, INC. (a Delaware corporation) and SUBSIDIARIES as of December 31, 1999 and 2000 and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cypress Communications, Inc. and subsidiaries as of December 31, 1999 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
February 19, 2001
(except with respect
to Note 1 and Note
14, as to which the
date is March 21, 2001)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CYPRESS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1999	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 69,475,000	$ 28,108,000
Short-term investments	0	67,809,000
Accounts receivable, net of allowance for doubtful accounts of $368,000, and $470,000 in 1999 and 2000, respectively	1,665,000	2,499,000
Other receivable	0	397,000
Prepaid expenses and other	321,000	606,000
Total current assets	71,461,000	99,419,000
PROPERTY AND EQUIPMENT, net	27,028,000	101,368,000
OTHER ASSETS:		
Real estate access rights, net	23,398,000	121,117,000
Other intangible assets, net	351,000	6,743,000
Other	617,000	2,758,000
Total other assets	24,366,000	130,618,000
Total assets	$122,855,000	$331,405,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,672,000	$ 4,081,000
Accrued expenses	2,696,000	21,403,000
Current portion of capital lease obligations	218,000	195,000
Total current liabilities	15,586,000	25,679,000
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	283,000	235,000
Total liabilities	15,869,000	25,914,000
CONVERTIBLE REDEEMABLE PREFERRED STOCK:		
$.001 par value; Series A; 1,211,000 and no shares issued and outstanding in 1999 and 2000, respectively	6,041,000	0
$.001 par value; Series B; 1,340,000 and no shares issued and outstanding in 1999 and 2000, respectively	10,706,000	0
$.001 par value; Series B-1; 580,000 and no shares issued and outstanding in 1999 and 2000, respectively	4,632,000	0
$.001 par value; Series C; 4,162,000 and no shares issued and outstanding in 1999 and 2000, respectively	78,899,000	0
Total preferred stock	100,278,000	0
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 58,621,000 and 150,000,000 shares authorized in 1999 and 2000, respectively; 2,760,000 and 48,540,000 shares issued and outstanding in 1999 and 2000, respectively	3,000	49,000
Additional paid-in capital	109,340,000	395,399,000
Deferred compensation	(27,124,000)	(19,663,000)
Warrants outstanding	23,398,000	185,187,000
Other comprehensive income	0	345,000
Accumulated deficit	(98,909,000)	(255,826,000)
Total stockholders' equity	6,708,000	305,491,000
Total liabilities and stockholders' equity	$122,855,000	$331,405,000

The accompanying notes are an integral part of these consolidated balance sheets.

CYPRESS COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 1998, 1999, and 2000

	1998	1999	2000
REVENUES	$ 2,418,000	$ 7,437,000	$ 13,724,000
OPERATING EXPENSES:			
Cost of services	1,540,000	4,966,000	19,758,000
Sales and marketing, including noncash compensation expense of $20,000, $321,000, and $862,000 in 1998, 1999, and 2000, respectively	1,489,000	4,007,000	17,314,000
General and administrative, including noncash compensation expense of $98,000, $1,404,000, and $4,765,000 in 1998, 1999, and 2000, respectively	2,535,000	11,232,000	52,065,000
Amortization of real estate access rights	0	0	16,270,000
Depreciation and other amortization	577,000	2,198,000	9,724,000
Restructuring and other unusual and infrequent charges	0	0	64,746,000
Total operating expenses	6,141,000	22,403,000	179,877,000
OPERATING LOSS	(3,723,000)	(14,966,000)	(166,153,000)
INTEREST INCOME, net	232,000	810,000	9,236,000
LOSS BEFORE INCOME TAXES	(3,491,000)	(14,156,000)	(156,917,000)
INCOME TAX BENEFIT	0	0	0
NET LOSS	(3,491,000)	(14,156,000)	(156,917,000)
BENEFICIAL CONVERSION FEATURE OF PREFERRED STOCK (Note 5)	0	(79,078,000)	0
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(3,491,000)	$ (93,234,000)	$(156,917,000)
NET LOSS PER COMMON SHARE:			
Basic and diluted	$ (1.32)	$ (35.22)	$ (3.66)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic and diluted	2,637,000	2,647,000	42,863,000

The accompanying notes are an integral part of these consolidated statements.

CYPRESS COMMUNICATIONS, INC. AND SUBSIDIARIES
STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999, AND 2000

	Common Stock		Additional	Deferred	Warrants	Other	Accumulated	St
	Shares	Amount	Paid-In Capital	Compensation	Outstanding	Comprehensive Income	Deficit	(D
BALANCE, December 31, 1997	2,637,000	$ 3,000	$ 1,240,000	$ 0	$ 0	$ 0	$ (2,184,000)	$
Issuance of common stock options	0	0	2,297,000	(2,297,000)	0	0	0	
Amortization of deferred compensation	0	0	0	118,000	0	0	0	
Net loss	0	0	0	0	0	0	(3,491,000)	
Comprehensive loss								
BALANCE, December 31, 1998	2,637,000	3,000	3,537,000	(2,179,000)	0	0	(5,675,000)	
Issuance of common stock	123,000	0	395,000	0	0	0	0	
Issuance of common stock options	0	0	26,330,000	(26,330,000)	0	0	0	
Amortization of deferred compensation	0	0	0	1,385,000	0	0	0	
Issuance of warrants	0	0	0	0	23,398,000	0	0	
Beneficial conversion feature of preferred stock (Note 5)	0	0	79,078,000	0	0	0	(79,078,000)	
Net loss	0	0	0	0	0	0	(14,156,000)	
Comprehensive loss								
BALANCE, December 31, 1999	2,760,000	3,000	109,340,000	(27,124,000)	23,398,000	0	(98,909,000)	
Sale of common stock	11,500,000	11,000	179,541,000	0	0	0	0	
Conversion of preferred stock (Note 4)	32,815,000	33,000	100,246,000	0	0	0	0	
Sale of common stock under ESOP	61,000	0	164,000	0	0	0	0	
Exercise of common stock options	305,000	0	250,000	0	0	0	0	
Issuance of restricted stock	500,000	1,000	2,999,000	(3,000,000)	0	0	0	
Purchase of SiteConnect (Note 6)	599,000	1,000	7,908,000	0	0	0	0	
Amortization of deferred compensation	0	0	0	5,412,000	0	0	0	
Issuance of warrants, net	0	0	0	0	161,789,000	0	0	
Forfeiture of unvested options	0	0	(5,049,000)	5,049,000	0	0	0	
Unrealized gain on short-term investments	0	0	0	0	0	436,000	0	
Foreign currency translation adjustment	0	0	0	0	0	(91,000)	0	
Net loss	0	0	0	0	0	0	(156,917,000)	(
Comprehensive loss								
BALANCE, December 31, 2000	48,540,000	$49,000	$395,399,000	$(19,663,000)	$185,187,000	$345,000	$(255,826,000)	$:

The accompanying notes are an integral part of these consolidated statements

CYPRESS COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1999, AND 2000

	1998	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(3,491,000)	$(14,156,000)	$(156,917,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	577,000	2,198,000	25,994,000
Amortization of deferred compensation	118,000	1,725,000	5,627,000
Restructuring and other unusual and infrequent charges	0	0	64,488,000
Other	6,000	13,000	0
Noncash interest income	0	0	(849,000)
Changes in operating assets and liabilities:			
Accounts receivable, net	(917,000)	(545,000)	(677,000)
Prepaid expenses and other current assets	18,000	(294,000)	(1,610,000)
Other assets	(90,000)	(196,000)	(2,374,000)
Accounts payable and accrued expenses	864,000	1,354,000	8,517,000
Net cash used in operating activities	(2,915,000)	(9,901,000)	(57,801,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(2,887,000)	(10,365,000)	(99,545,000)
Purchase of assets of MTS Communications	(1,905,000)	0	0
(Advance to) repayment from MTS Communications	(200,000)	200,000	0
Purchase of short-term investments, net	0	0	(66,524,000)
Cash acquired in acquisitions	0	0	295,000
Other	0	19,000	(252,000)
Net cash used in investing activities	(4,992,000)	(10,146,000)	(166,026,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of Series A preferred stock, net of offering expenses	55,000	0	0
Proceeds from issuance of Series B and B-1 preferred stock, net of offering expenses	15,279,000	51,000	0
Proceeds from issuance of Series C preferred stock, net of offering expenses	0	78,895,000	0
Investment in Cypress Canada	0	0	2,450,000
Proceeds from exercise of stock options	0	55,000	250,000
Proceeds from initial public offering, net of offering costs	0	0	179,875,000
Proceeds from employee stock purchase plan	0	0	164,000
Principal payments on capital lease obligations	(40,000)	(214,000)	(194,000)
Borrowings under line of credit	500,000	0	0
Repayments of line of credit	(500,000)	0	0
Payment of initial public offering costs	0	(323,000)	0
Net cash provided by financing activities	15,294,000	78,464,000	182,545,000
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0	0	(85,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,387,000	58,417,000	(41,367,000)
CASH AND CASH EQUIVALENTS, beginning of year	3,671,000	11,058,000	69,475,000
CASH AND CASH EQUIVALENTS, end of year	$11,058,000	$ 69,475,000	$ 28,108,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 13,000	$ 13,000	$ 54,000
Assets acquired under capital leases	$ 670,000	$ 0	$ 0
Common stock issued to acquire SiteConnect	$ 0	$ 0	$ 7,908,000

The accompanying notes are an integral part of these consolidated statements.

CYPRESS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1999, and 2000

1. Organization and Nature of Business

Cypress Communications, Inc. and its subsidiaries ("Cypress Communications" or the "Company") provide a full range of communications services to businesses in multi-tenant office buildings located in select major metropolitan markets within the United States. These communications services include high speed Internet access and data services, local and long distance voice services, feature rich digital telephone systems, digital satellite business television, voicemail, e-mail, website hosting, security/monitoring services and other advanced communications services. The Company delivers these services over state-of-the-art fiber-optic, digital and broadband networks that Cypress Communications designs, constructs, owns and operates inside large- and medium-sized office buildings.

The Company has experienced operating losses since its inception and generated negative cash flows from operations. In December 2000, the Company's board of directors approved a restructuring plan under which management expected cash on hand at December 31, 2000 to fund operations into the second quarter of 2002 (Note 13). In March 2001, the Company's board of directors approved an additional restructuring under which management expects the Company's cash on hand to fully fund operations without raising additional capital and under which the Company expects to reach positive cash flow in the second half of 2003 (Note 14). There can be no assurance that the Company's results will be in accordance with management's revised business plan.

Other Risk Factors

The Company faces certain other risk factors, including the following: lack of abundant resources or financing, dependence on key personnel, dependence on third-party suppliers of equipment and communications services, dependence on relationships with certain property owners or operators, competition from other providers of communications services, and potential disruption of services due to system failures.

2. Summary Of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting using accounting principles generally accepted in the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates, and such differences could be material.

2. Summary Of Significant Accounting Policies (Continued)

Revenue Recognition

In the current year, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". The adoption did not have a material impact on Cypress Communications' current or historical financial statements.

The Company's revenues include recurring charges for local access, long-distance, equipment rental, Internet access, digital satellite business television, voicemail, inbound 800, and other enhanced voice and data services which are recognized as services are provided. Revenues also include nonrecurring charges for installations and moves, adds, and changes which are recognized when services are provided. Installation fees represent the initial cost charged by Cypress Communications for installing voice phone lines in the tenant's premises. Move, add, and change charges are for the Company's labor and materials related to moving, adding or changing a customer's services. Revenues from these services are recognized as services are provided as they represent separate earnings processes.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

Short-term investments generally mature between three months and five years from the purchase date. All short-term investments are classified as available for sale and are recorded at market using the specific identification method. Unrealized gains and losses are reflected in other comprehensive income. Realized gains and losses were not material.

Foreign Currencies

Assets and liabilities recorded in foreign currencies are translated at the exchange rate in effect on the balance sheet date. Translation adjustments resulting from this process are charged or credited to other comprehensive income. Revenue and expenses are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in other expenses.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally three to seven years). Leasehold improvements are depreciated over the lesser of the average lease term (or the term of the related license agreement) or the assets' useful lives. Depreciation expense was $546,000, $1,954,000, and $9,003,000 for the years ended December 31, 1998, 1999, and 2000, respectively. Maintenance and repairs are charged to expense as incurred. Gains or losses on disposal of property and equipment are recognized in operations in the year of disposition. There were no significant gains or losses in any periods presented.

2. Summary Of Significant Accounting Policies (Continued)

Income Taxes

Income taxes have been provided for using the liability method in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" (Note 11). Deferred income taxes are recorded using enacted tax laws and rates for the years in which the taxes are expected to be paid. Deferred income taxes are provided for items when there is a temporary difference in recording such items for financial reporting and income tax reporting.

Intangibles

Goodwill and certain identifiable intangibles were recorded in connection with the Company's purchase of substantially all of the assets of MTS Communications Company, Inc. and the purchase of all of the outstanding common stock of SiteConnect, Inc. (Note 6). These costs are being amortized using the straight-line method over three to ten years.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including property and equipment and intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset should be assessed. An impairment is recognized when the undiscounted future net cash flows estimated to be generated by the asset are insufficient to recover the current carrying value of the asset. Estimates of future cash flows are based on many factors, including current operating results, expected market trends, and competitive influences. In 2000, the Company recorded a charge for property and equipment and real estate access rights impaired by management's decision to reduce operations in certain buildings and markets (Note 13). Management believes that the remaining long-lived assets in the accompanying financial statements are appropriately valued as of December 31, 2000 following this charge (*see* Note 14 for additional restructuring decisions subsequent to year-end).

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets approximate the fair values for cash, short-term investments and capital lease obligations.

In accordance with SFAS No. 107, "Disclosures About Fair Values of Financial Instruments," the Company estimated the fair value of the preferred stock as follows at December 31, 1999:

	As of December 31, 1999
Series A	$81.8 million
Series B	$90.4 million
Series B-1	$39.1 million
Series C	$281.0 million

The fair value of the preferred stock was based on the estimated fair value of the Company's common stock as of December 31, 1999 and the number of shares of common stock granted upon conversion. Simultaneous with the closing of the Company's initial public offering in February 2000, all

2. Summary Of Significant Accounting Policies (Continued)

outstanding shares of the Company's preferred stock automatically converted into shares of common stock (Note 4).

Segment Reporting

The Company reports one segment, communication services, and provides an integrated package of communication products to small- and medium-sized businesses.

Accrued Expenses

Accrued expenses relate to the following at December 31:

	1999	2000
Property and equipment additions	$ 17,000	$ 4,652,000
Compensation	1,117,000	3,179,000
Taxes	454,000	255,000
Network costs	422,000	2,610,000
Liability to investor in Cypress Canada	0	2,450,000
Restructuring	0	7,267,000
Other	686,000	990,000
	$2,696,000	$21,403,000

Net Loss Per Common Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the year. Potential common stock equivalents are excluded from the calculation of diluted net loss per share as their effect is antidilutive. Convertible redeemable preferred stock was outstanding through February 2000 (Note 4). These securities were not considered in the computation of net loss per share as the conversion was dependent upon a qualifying public offering, as defined in the preferred stock sale agreements (Note 5).

Stock Compensation

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and has adopted the disclosure option of SFAS No. 123, "Accounting for Stock-Based Compensation ("SFAS No. 123")."

3. Property and Equipment

Property and equipment consist of the following at December 31:

	1999	2000
System infrastructure	$10,715,000	$ 39,183,000
System equipment	4,137,000	20,363,000
Computer and office equipment	2,087,000	11,503,000
Leasehold improvements	989,000	15,374,000
Assets under construction	11,834,000	26,682,000
	29,762,000	113,105,000
Less accumulated depreciation and amortization	(2,734,000)	(11,737,000)
	$27,028,000	$101,368,000

4. Capital Transactions

Stock Option Plans

In July 1997, the Company adopted the 1997 Management Option Plan (the "1997 Option Plan"). The 1997 Option Plan provides for the granting of either incentive stock options or nonqualified stock options to purchase shares of the Company's common stock to officers, directors, and key employees responsible for the direction and management of the Company. The options expire ten years after the date of grant and vest 20% upon the first anniversary of the date of grant and 5% each subsequent quarter measured from the first anniversary of the date of grant.

On December 21, 1999, the Company's board of directors adopted the 2000 Stock Option Plan (the "2000 Option Plan"), which was approved subsequently by the stockholders on December 23, 1999. All officers, directors, and key persons are eligible to participate in the 2000 Option Plan, subject to the discretion of a committee appointed by the board of directors. Under the 2000 Option Plan, the options expire ten years after the date of grant and vest 25% upon the first anniversary of the date of grant and 6.25% each subsequent quarter measured from the first anniversary of the date of grant. The board of directors reserved a combined 11.7 million shares for issuance under the 1997 Option Plan and the 2000 Option Plan.

4. Capital Transactions (Continued)

A summary of the activity related to the option plans is as follows:

	Weighted Average Shares	Weighted Average Exercise Price
Balance at December 31, 1997	1,716,000	$0.66
Granted	1,088,000	1.00
Forfeited	(77,000)	1.07
Balance at December 31, 1998	2,727,000	0.78
Granted	3,527,000	2.29
Forfeited	(311,000)	1.15
Exercised	(123,000)	0.94
Balance at December 31, 1999	5,820,000	1.64
Granted	3,132,000	9.42
Forfeited	(974,000)	7.65
Exercised	(305,000)	0.84
Balance at December 31, 2000	7,673,000	4.15

In December 1999, the Company granted 25,655 options to purchase common stock, with an exercise price of $2.53 per share, to consultants for prior services. The options vested immediately and the consultants exercised these options prior to December 31, 1999. The Company recorded an expense of approximately $340,000 in 1999 related to this grant in accordance with SFAS No. 123.

The following table summarizes information about the stock options outstanding at December 31, 2000:

Exercise Price	Number of Options Outstanding at December 31, 2000	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable as of December 31, 2000
$ 0.00 to 0.99	1,637,000	6.65	$0.67	989,000
1.00 to 1.99	1,813,000	8.23	1.08	575,000
2.00 to 2.99	1,828,000	9.03	2.54	321,000
5.00 to 5.99	229,000	9.60	5.81	0
6.00 to 6.99	1,107,000	9.42	6.08	0
7.00 to 7.99	115,000	9.50	7.33	0
9.00 to 9.99	147,000	9.47	9.88	0
15.00 to 15.99	146,000	9.33	15.38	0
17.00 to 17.99	559,000	9.05	17.00	15,000
21.00 to 21.99	92,000	9.23	21.75	0
0.67 to 21.99	7,673,000	8.43	4.15	1,900,000

4. Capital Transactions (Continued)

The Company recorded deferred compensation of approximately $2.3 million in 1998 and approximately $26.3 million in 1999, which represents the difference between the exercise price per option and the fair value of the Company's common stock at the dates of grant. All options granted in 2000 were made with exercise prices equal to the fair market value of the Company's common stock at the grant dates. Deferred compensation is amortized over the vesting period of the stock options, which is generally four or five years. In 2000, the Company reversed approximately $5 million of deferred compensation related to the forfeiture of unvested options. The Company also reduced compensation expense in 2000 by approximately $539,000 as a result of these forfeitures.

Had compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net loss would have been the pro forma amounts indicated below. The pro forma net loss is calculated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rates of 5.28% for 1998, 6.05% for 1999, and 6.35% for 2000, expected life of 6 years for 1998, 3½ years for 1999, and 3½ years for 2000, dividend yield of 0%, and expected volatility of 0% for all periods prior to the Company's filing for an initial public offering and 65% for December 4, 1999 through December 31, 2000. The weighted average fair value of options granted during the years ended December 31, 1998, 1999, and 2000 was $3.22, $9.07, and $4.85 per option, respectively.

	Year Ended December 31		
	1998	1999	2000
Net loss, as reported	$(3,491,000)	$(93,234,000)	$(156,917,000)
Net loss, pro forma	(3,539,000)	(93,355,000)	(158,436,000)
Net loss per common share, as reported	$ (1.32)	$ (35.22)	$ (3.66)
Net loss per common share, pro forma	(1.34)	(35.26)	(3.70)

Shareholder Rights Plan

In December 1999, the Company approved a stockholder rights plan. Subject to certain limited exceptions, this plan entitles the stockholders to rights to acquire additional shares of the Company's common stock when a third party acquires 15% of the Company's common stock or commences or announces its intent to commence a tender offer for at least 15% of the Company's common stock. This plan could delay, deter, or prevent a change of control.

Employee Stock Purchase Plan

In December 1999, the board of directors and stockholders approved an employee stock purchase plan. Up to 900,000 shares of common stock may be issued under this plan. Under this plan, eligible employees may contribute up to 10% of their compensation toward the purchase of the Company's common stock at a price that is the lesser of 85% of the closing price on either the first or last day of each offering period. During 2000, employees purchased 61,000 shares under this plan at an average price of $2.69 per share.

4. Capital Transactions (Continued)

Amendment to Certificate of Incorporation

In September 1998, the Company amended and restated its certificate of incorporation to, among other things, increase the total number of authorized common stock and preferred stock to 20,594,088 and 3,703,566, respectively. The amendment also modified certain terms of the existing Series A preferred stock and increased the number of shares of preferred stock designated as Series A to 1,211,140.

In October 1999, the Company increased the authorized number of shares of its common stock and preferred stock to 49,023,324 and 7,687,704, respectively.

In October 1999, the Company designated an additional 6,375 shares as Series B preferred stock and designated 3,977,763 shares as Series C preferred stock. In December 1999, the Company increased the authorized number of its common stock and preferred stock to 58,620,758 and 7,920,467, respectively, and designated an additional 232,763 shares as Series C preferred stock.

In February 2000, the Company amended and restated its certificate of incorporation to, among other things, increase the total number of authorized common stock and preferred stock to 150,000,000 and 21,000,000, respectively. The amendment designated 1,000,000 shares of the preferred stock as Series Z Junior Participating Cumulative Preferred Stock.

Stock Split

In May 1998, the Company's board of directors and the majority stockholders approved a 2-for-1 stock split with respect to each outstanding share of common stock and Series A preferred stock. This split was effected in the form of a stock dividend that was paid in September 1998. All references to common stock and Series A share amounts have been restated to reflect this split on a retroactive basis. In February 2000, a committee appointed by the Company's board of directors approved a 4.5-for-1 stock split with respect to its outstanding common stock. All shares of common stock and per share amounts in the accompanying financial statements have been retroactively adjusted to reflect this split.

Initial Public Offering

On February 15, 2000, the Company completed its initial public offering. The Company sold an aggregate of 11,500,000 shares of common stock (including 1,500,000 shares which were issued upon the exercise of the underwriters' overallotment option) at a per share price of $17, for an aggregate offering price of approximately $195.5 million. After deducting offering expenses, the Company received approximately $179.6 million in net proceeds from the initial public offering. The Company is using the proceeds from the offering for the construction of in-building networks, the purchase of communications equipment and working capital and general corporate purposes.

Conversion of Preferred Stock

Simultaneous with the closing of the Company's initial public offering, all outstanding shares of the Company's preferred stock automatically converted into 32,815,359 shares of common stock (Note 5).

4. Capital Transactions (Continued)

New Executive Compensation

In May 2000, in connection with an executive compensation arrangement for the Company's new CEO, the Company issued the CEO an option to acquire 1,000,000 shares of common stock with an exercise price of $6 per share, the fair market value of the Company's common stock on the date of grant. These options vest 25% upon the first anniversary of the date of grant and 6.25% each subsequent quarter measured from the first anniversary of the date of grant. Additionally, in May 2000, the Company granted the new CEO 500,000 shares of restricted common stock which vest five years from the grant date. In connection therewith, the Company recorded deferred compensation expense of $3 million, which is being amortized over the five-year vesting period. The Company also recorded charges of approximately $1.4 million, included in general and administration expense, in May 2000 related to the recruitment of the new CEO. This charge included $215,000 for the estimated fair value of a warrant issued to an executive search firm that allows the holder to purchase 116,667 shares of the Company's common stock at $11.00 per share. This warrant expires on May 30, 2003.

Stock Option Repricing

On February 16, 2001, the Company's Board of Directors approved a plan to reprice certain existing stock options having an exercise price of greater than $2.52 per share. Pursuant to the plan, options to purchase 1,566,788 shares of common stock, having an original weighted average exercise price of $10.25 per share, will be repriced to $1.28 per share. In addition, options to purchase 1,619,500 shares of common stock held by certain executive officers of the Company, having an original weighted average exercise price of $5.01 per share, will be converted into (i) options to purchase 910,000 shares of common stock at $1.28 per share, and (ii) 496,700 shares of restricted common stock. The restricted stock will vest ratably over three years. The vesting schedules applicable to the employee stock options affected by this repricing and conversion did not change. Variable accounting will be required for the repriced stock options.

5. Convertible Redeemable Preferred Stock

Sales of Preferred Stock

On September 30, 1998, the Company issued 1,333,200 and 579,613 shares of its Series B and Series B-1 preferred stock, respectively, for $8 per share. In February 1999, the Company issued 6,375 shares of its Series B preferred stock to two employees of the Company for $8 per share for total proceeds of $51,000.

In October 1999, the Company issued 2,819,868 shares of its Series C preferred stock to existing and new third-party investors for $19 per share for total proceeds of approximately $53.6 million. In November 1999 and December 1999, the Company issued 1,157,895 and 184,211 shares, respectively, of its Series C preferred stock to certain property owners and operators for $19 per share for total proceeds of $25.5 million.

5. Convertible Redeemable Preferred Stock (Continued)

Beneficial Conversion Charge

In accordance with Emerging Issues Task Force ("EITF") 98-5, the Company recorded a charge in the quarter ending December 31, 1999 of approximately $79.1 million to reflect the beneficial conversion feature related to the shares of its Series C preferred stock.

Conversion of Preferred Stock

Simultaneous with the closing of the Company's initial public offering, all outstanding shares of the Company's preferred stock automatically converted into 32,815,359 shares of common stock.

6. Acquisitions

MTS Communications

On December 8, 1998, the Company acquired substantially all of the assets of MTS Communications, a provider of communications services in California, for total consideration of $2,574,848 consisting of $1,905,000 in cash and the assumption of certain capital lease obligations with a fair value of $670,000. The MTS acquisition was accounted for as a purchase, and the results of operations of MTS Communications have been included since the date of acquisition in the accompanying statements of operations. The purchase price was allocated as follows:

Property and equipment	$2,060,000
Tenant contracts	430,000
Goodwill	85,000
	$2,575,000

Tenant contracts and goodwill are being amortized over three years and ten years, respectively.

Prior to the MTS Acquisition, the Company advanced $200,000 to MTS Communications in the form of a secured 8% promissory note to fund working capital requirements of MTS Communications. The note was due March 8, 1999 and was repaid in full.

The following unaudited pro forma results of operations for the year ended December 31, 1998 assume that the MTS Acquisition occurred on January 1, 1998. The pro forma information is presented for informational purposes only and may not be indicative of the actual results had the acquisition occurred on the assumed date, nor is the information necessarily indicative of future results of operations.

	1998
Revenues	$ 4,485,000
Net loss	(3,875,000)
Net loss per common share	(1.47)

6. Acquisitions (Continued)

SiteConnect

In April 2000, the Company acquired all of the outstanding common stock of SiteConnect, a Seattle-based in-building communications service provider, in exchange for an aggregate of 635,654 shares of the Company's common stock, of which 37,269 shares are being held in escrow until April 2001. The acquisition was accounted for as a purchase, and accordingly, the results of operations of SiteConnect have been included since the date of acquisition in the accompanying statements of operations. The preliminary allocation of the purchase price as of December 31, 2000 was as follows:

Current assets	$ 491,000
Property and equipment	602,000
Intangible assets:	
Real estate access rights	1,470,000
Customers	219,000
Goodwill	5,407,000
Current liabilities	(281,000)
Total	$7,908,000

The useful lives of the intangible assets acquired from SiteConnect are as follows:

Real estate access rights	10 years
Customers	3 years
Goodwill	10 years

7. Cypress Canada

In September 2000, Cypress Communications and e-ffinity properties, inc. formed Cypress Canada Communications Inc. to provide in-building communications services in Canada. Cypress Communications and e-ffinity owned 51% and 49%, respectively, of Cypress Canada. Cypress Canada was originally capitalized with a total of $5 million in cash contributed by Cypress Communications and e-ffinity based on each party's respective ownership percentage.

In January 2001, Cypress Communications and e-ffinity agreed in principle to cease the operations of Cypress Canada and for Cypress Communications to return e-ffinity's original investment in the joint venture. Cypress Communications recorded an accrued liability of $2.5 million at December 31, 2000 for this expected payment and reflected 100% of the net loss of Cypress Canada in the Company's statements of operations for the year ended December 31, 2000.

8. Real Estate Access Rights

In November and December 1999, the Company entered into master license agreements and stock warrant agreements with several property owners and operators (the "1999 Warrant Program"). Under the terms of these agreements, the Company agreed to issue warrants to purchase up to an aggregate of approximately 11 million shares of the Company's common stock at a price of $4.22 per share. These warrants are exercisable for periods of five to ten years. The number of warrants earned was based on the gross leasable area of the buildings subject to the master license agreements. Upon the completion of a due diligence period and the finalization of the building schedules in the master license agreements, the final number of warrants earned was determined and the warrants were nonforfeitable. As such, in accordance with EITF 96-18, the Company recorded the fair value of these warrants as an intangible asset, real estate access rights, which is being amortized on a straight-line basis over the terms of the related license agreements, which are generally ten years. As of December 31, 1999, the Company had recorded approximately $23.4 million for the fair value of warrants earned through December 31, 1999. During 2000, the Company recorded an additional $163.4 million for the fair value of all remaining warrants earned under the 1999 Warrant Program.

In 2000, the Company entered into additional master license agreements and stock warrant agreements with certain property owners or operators (the "2000 Warrant Program"). During the three months ended June 30, 2000, the Company entered into agreements with four property owners and operators. Under the terms of these agreements, the Company agreed to issue warrants to purchase up to an aggregate of 642,093 shares of the Company's common stock at a weighted average exercise price of $11.11 per share. During the three months ended September 30, 2000, the Company entered into agreements with two property owners and operators. Under the terms of these agreements, the Company agreed to issue warrants to purchase up to an aggregate of 256,811 shares of the Company's common stock at a weighted average exercise price of $4.81 per share. The warrants under the 2000 Warrant Program are exercisable for a period of ten years. The exact number of shares of common stock underlying the warrants, which is based on the gross leasable area of the buildings set forth in the master license agreements, will be determined upon the completion of a due diligence period and the finalization of the building schedules. Warrants earned under the 2000 Warrant Program are forfeitable until a specific communications license agreement ("CLA") is signed for a particular building. As such, in accordance with EITF 96-18, the measurement date for valuing the warrants will be the dates upon which the property owners and operators enter into a CLA with the Company. Upon signing a CLA, the fair value of the warrants attributable to such CLA is recorded as real estate access rights and is amortized over the terms of the related CLA, which is expected to be ten years. Through December 31, 2000, approximately $1.0 million has been recorded related to 366,058 warrants earned under the 2000 Warrant Program.

As of December 31, 2000, property owners had voluntarily returned warrants to purchase 192,741 shares of our common stock that were attributable to buildings that such owners failed to deliver in accordance with their master license agreements. The weighted average price of such returned warrants was $15.21 per share. The Company reduced its recorded real estate access rights by $2.9 million to reflect the returned warrants.

Amortization of real estate access rights was $16.3 million for the year ended December 31, 2000. In the fourth quarter of 2000, the Company recorded a charge of $47.7 million to write-off the value of real estate access rights related to retail markets where operations were suspended as part of our

8. Real Estate Access Rights (Continued)

December 2000 restructuring (*see* Note 13 to our financial statements regarding the impairment of certain real estate access rights).

9. Related-Party Transactions

A portion of the proceeds from the Company's sales of its preferred stock was received from officers, directors, or other parties related to the Company. The sales were conducted concurrently with, and on the same terms as, those entered into with unrelated parties.

10. Commitments and Contingencies

Leases

The Company is obligated under several operating and capital lease agreements, primarily for office space and equipment. Future annual minimum rental payments under these leases as of December 31, 2000 are as follows:

	Operating	Capital
2001	$ 5,970,000	$ 238,000
2002	6,132,000	160,000
2003	6,056,000	53,000
2004	5,934,000	25,000
2005	5,407,000	15,000
Thereafter	8,975,000	0
	$38,474,000	491,000
Less amount representing interest and taxes		(61,000)
Present value of future minimum capital lease payments		430,000
Less current portion		195,000
Long-term portion		$ 235,000

Rental expense was $159,000, $629,000, and $4,087,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

Commission Obligation

The Company has entered into license agreements with property owners and/or operators of several office buildings whereby the Company has the right to provide communications services in these buildings. Under the terms of the agreements, the Company is generally obligated to pay a commission based on the greater of a base fee or a percentage of revenue earned in the related building or development. At December 31, 2000, the Company's aggregate minimum obligation under these agreements is approximately $2.2 million per year for the next seven years.

10. Commitments and Contingencies (Continued)

Purchase Obligation

At December 31, 2000, the Company had contracts with several communications providers with minimum purchase obligations for leased voice and data transport, equipment colocation, and other services under terms typically ranging from one to five years. As of December 31, 2000, approximate future minimum purchase commitments were as follows:

2001	$ 7,823,000
2002	3,474,000
2003	984,000
2004	461,000
2005	177,000
	$12,919,000

Line of Credit

The Company entered into an agreement with Silicon Valley Bank on September 1, 1998 for a credit line totaling $500,000 bearing interest at Silicon Valley Bank's prime rate plus 1.25%. The total amount was borrowed and subsequently repaid prior to December 31, 1998. The agreement expired on April 22, 1999. Borrowings were secured by a security interest in certain of the Company's assets.

Employee Benefit Plan

In 1997, the Company adopted a 401(k) defined contribution plan. Participants may elect to defer 15% of compensation up to a maximum amount determined annually pursuant to Internal Revenue Service regulations. The Company may provide matching contributions under this plan, but has not done so in the periods presented.

Employment Agreement

The Company has an employment agreement with its CEO which provides for severance compensation in the event a change in control terminates the CEO's employment within twenty-four months of such change in control. This agreement provides a lump sum severance payment of six times the executive's base salary and three times the value of any savings and retirement benefits, welfare and fringe benefits provided to the CEO during the twelve-month period prior to termination. The Company also has a severance plan which covers its Vice Chairman, CFO and Executive Vice President of Business Development and External Affairs. This plan provides a lump sum severance payment of one and one-half times their annual base salary if they are terminated within one-year following a change of control of the Company.

Vendor Financing Agreement

In January 2001, Cisco Systems Capital Corporation granted the Company a $6.0 million lease facility for purchases of network equipment from Cisco Systems, Inc.

10. Commitments and Contingencies (Continued)

Legal Proceedings

The Company is subject to legal proceedings and claims, including employment and other matters that arise in the ordinary course of business. There are no pending legal proceedings to which the Company is a party that management believes will have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

11. Income Taxes

The income tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective income tax bases, which give rise to deferred tax assets and liabilities, are as follows as of December 31:

	1999	2000
Deferred income tax assets:		
Net operating loss carryforwards	$7,199,000	$41,217,000
Allowance for doubtful accounts	90,000	183,000
Restructuring accrual	0	6,567,000
Stock compensation	0	220,000
Real estate access rights	0	18,583,000
Other	29,000	30,000
Total deferred income tax assets	7,318,000	66,800,000
Deferred income tax liabilities:		
Depreciation	(941,000)	(1,625,000)
Valuation allowance	(6,377,000)	(65,175,000)
Net deferred income taxes	$ 0	$ 0

The Company has provided a valuation allowance against its net deferred tax assets. The Company had approximately $53 million of federal and state net operating loss carryforwards at December 31, 2000. The net operating loss carryforwards begin to expire in the year 2017 if not previously utilized. Additionally, use of the Company's net operating losses is limited due to certain ownership changes as defined in Section 382 of the Internal Revenue Code. Utilization of existing net operating loss carryforwards may be further limited in future years if significant ownership changes occur.

The components of the provision for income taxes for the years ended December 31, 1998, 1999, and 2000 are as follows:

	1998	1999	2000
Current	$ 0	$ 0	$ 0
Deferred	(1,280,254)	(4,786,353)	(58,798,000)
Increase in valuation allowance	1,280,254	4,786,353	58,798,000
Total income tax benefit	$ 0	$ 0	$ 0

11. Income Taxes (Continued)

The differences between the federal statutory income tax rate and the Company's effective rate for the years ended December 31, 1998, 1999, and 2000 are as follows:

	1998	1999	2000
Federal statutory rate	(34)%	(34)%	(34)%
State income taxes, net of federal benefit	(4)	(4)	(5)
Permanent differences	0	4	1
Increase in valuation allowance	38	34	38
Effective rate	0%	0%	0%

12. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results for 1999 and 2000 (in thousands except per share data):

Quarter Ended	Operating Revenue	Operating Loss	Net Loss	Loss Per Share
December 31, 2000	$ 4,294	$ (96,676)	$ (94,945)	$ (1.98)
September 30, 2000	3,589	(29,591)	(26,745)	(0.56)
June 30, 2000	3,310	(26,399)	(23,797)	(0.50)
March 31, 2000	2,531	(13,487)	(11,430)	(0.41)
2000	$13,724	$(166,153)	$(156,917)	(3.66)
December 31, 1999	$ 2,210	$ (6,824)	$ (85,260)	$(31.84)
September 30, 1999	1,934	(3,691)	(3,684)	(1.40)
June 30, 1999	1,712	(2,666)	(2,603)	(0.99)
March 31, 1999	1,581	(1,785)	(1,687)	(0.64)
1999	$ 7,437	$ (14,966)	$ (93,234)	(35.22)

13. Restructuring and Other Unusual and Infrequent Charges

In November and December 2000, the Company reduced its workforce by 41 employees across all functions nationwide. These employees received severance payments aggregating approximately $258,000. In December 2000, the Company's board of directors committed the Company to a revised business plan that included several initiatives to extend the Company's need for additional funding into the second quarter of 2002. The revised plan included the Company's exit from several markets, as well as cost reductions through employee reduction and other measures. This plan would focus the Company's retail operations in the following markets: Atlanta, Boston, Chicago, Dallas, Denver, Houston, New Orleans, Phoenix, San Francisco, Seattle, Southern California (Los Angeles and Orange County), South Florida and Washington DC. The Company had originally targeted 28 metropolitan retail markets. The Company also decided to implement wholesale operations in all 28 markets where it has constructed in-building networks whereby the Company would sell access to its in-building networks to other communications providers.

13. Restructuring and Other Unusual and Infrequent Charges (Continued)

In connection with the revised business plan, the Company reduced its workforce by approximately 121 employees across all functional areas in January 2001.

In connection with this restructuring, the Company recorded certain restructuring and other unusual and infrequent charges in December 2000. A detail of these charges is as follows:

	Amount
Impaired real estate access rights	$47,650,000
Impaired property and equipment	9,572,000
Circuit termination charges	5,104,000
Office space leases	2,056,000
Employee severance	258,000
Other exit costs	106,000
Total	$64,746,000

The Company recorded an impairment charge in accordance with SFAS No. 121 to write off the net book value of real estate access rights in the markets in which the Company has suspended retail services.

The Company also recorded an impairment charge in accordance with SFAS No. 121 related to 1) property and equipment that the Company has not placed in service, no longer plans to use, and expects to sell at a discount from its net book value, and 2) property and equipment deployed in markets in which the Company does not plan to provide retail services and that the Company believes has no salvage value. Property and equipment expected to be sold was written down to its estimated fair value based upon third party quotes to purchase such property and equipment.

Restructuring charges include the Company's estimate of costs it may incur to terminate contracts it has with communications service providers to purchase circuits and connectivity, as well as charges for office space lease commitments in abandoned markets, net of an estimate for sublease rentals. The restructuring charge also includes employee severance for employees terminated in 2000 and other exit costs. Restructuring costs were accrued in accordance with EITF 94-3.

The Company incurred additional employee severance costs of approximately $600,000 in January 2001 related to terminations of 121 employees that met the criteria for accrual in accordance with EITF 94-3 at that time.

14. Additional Restructuring

On March 21, 2001, the Company's board of directors approved a revised business plan under which Cypress Communications will concentrate its retail efforts on seven major metropolitan markets. In Atlanta, Boston, Chicago, Dallas, Houston and Southern California (Los Angeles and Orange County), the Company intends to continue to offer its comprehensive voice and data services. In Seattle, the Company intends to offer its data services only.

14. Additional Restructuring (Continued)

Under this revised plan, the Company would continue plans to resell components of its in-building fiber optic network infrastructure to other communications service providers in the 28 markets in which these networks have already been constructed.

Management has stated that it believes that, under this revised plan, the Company's cash on hand would fully fund ongoing business operations without raising additional capital and that the Company would reach positive cash flow in the second half of 2003.

As a result of this restructuring, the Company will reduce its workforce by approximately 50%, or about 200 employees, by the middle of 2001. The Company will record restructuring charges in 2001 related to this revised business plan, including charges related to the reductions in markets and personnel and the impairment of related fixed assets and real estate access rights. As part of its ongoing efforts to streamline operations, the Company may incur additional charges which cannot be estimated currently and which may be material.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULES

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of CYPRESS COMMUNICATIONS, INC. and SUBSIDIARIES included in this Form 10-K and have issued our report thereon dated February 19, 2001 (except with respect to Note 1 and Note 14, as to which the date is March 21, 2001). Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
February 19, 2001

CYPRESS COMMUNICATIONS, INC. AND SUBSIDIARIES
SCHEDULE

Allowance for Doubtful Accounts:

	Beg. Balance	Charged to Expense	(Write-offs)/ Recoveries	Ending Balance
For the Year Ended December 31, 1998	$ 10,000	$ 70,000	$ 0	$ 80,000
For the Year Ended December 31, 1999	$ 80,000	$ 395,000	$(107,000)	$ 368,000
For the Year Ended December 31, 2000	$ 368,000	$ 803,000	$(701,000)	$ 470,000

Deferred Tax Asset Valuation Allowance:

	Beg. Balance	Charged to Expense	Reversals	Ending Balance
For the year ended December 31, 1998	$ 311,000	$ 1,280,000	$ 0	$1,591,000
For the Year Ended December 31, 1999	$1,591,000	$ 4,786,000	$ 0	$6,377,000
For the Year Ended December 31, 2000	$6,377,000	$58,798,000	$ 0	$ 65,175

Restructuring Accrual:

	Beg. Balance	Charged to Expense	Reversals/ Payments	Ending Balance
For the year ended December 31, 2000	$ 0	$ 7,525,000	$(258,000)	$7,267,000

CONSENT OF ARTHUR ANDERSEN LLP

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our reports included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8, No. 333-30004, No. 333-30504, and No. 333-41446.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 28, 2001